

Connecticut State Teachers' Retirement Board

Report on a Study and Recommendations by the Benefit Design Task Force

Normal 4/30/00
Normal .23%
Unfunded .49%
Total .72%

.0072 x \$2,757,872,000
 ① \$19.9 million 2001-02
 unfunded \$279,660,000
 (see last)

$$\frac{3.84}{2,191,628,116} = \frac{.49}{x}$$

$$x = .49x$$

\$279,660,000

Normal 6/30/96
Normal .23%
Unfunded .49%
Total .72%

$$.0072 \times 2311,267,852 \text{ (6/30/96 val)}$$

$$\begin{array}{r}
 \$16.6 \text{ million} \\
 \text{unfunded} \\
 \frac{5.95}{2,978,602,424} = \frac{.49}{x}
 \end{array}$$

\$245,296,000 million

6/30/96 val

ISSUE #2:

POSSIBLE CHANGES TO TRS

The Task Force recognized that although a member might make a significant career commitment to education in the State of Connecticut, such a member might incur a substantial reduction in benefits (relative to other teacher systems) if he/she elected to retire "early" under TRS. Members frequently refer to the plan's reductions for early benefit commencement as the "early retirement penalty."

As a result, the Task Force considered several proposals to make these penalties less onerous to retiring members. The financial and demographic effects on the State, the Towns, and TRS members were considered in some detail and modifications were made as the discussions progressed. These proposals are summarized in the Appendix.

PROPOSED REVISION

After considering the financial and demographic implications of a number of proposals, the Task Force recommends that the Teachers' Retirement Board adopt the following revised administrative factors to be effective for retirements on or after July 1, 1999 and to be applied to the accrued normal retirement benefit of any member who has completed at least 30 (but less than 35) years of service (and who has not yet reached age 60):

Years Prior to Normal Retirement Age	Current Factor	Revised Factor
1	.94	.97
2	.88	.94
3	.82	.91
4	.76	.88
5	.70	.85

Note: Current factors represent a reduction in benefit of 1/2 of 1% (0.50%) for each month benefit commencement precedes normal retirement age (i.e., 6% per year); while the revised factors represent a reduction in benefit of 1/4 of 1% (0.25%) for each month early (i.e., 3% per year).

Illustration:

A teacher was hired at age 25 and has taught continuously in Connecticut ever since.

UNDER THE CURRENT PROVISIONS

The teacher's Normal Retirement Age is 60. Upon turning 55, the teacher will have completed 30 years of Credited Service. At this point the accrued annual normal retirement benefit payable when the teacher reaches age 60 is 60% ($2\% \times 30$ years of Credited Service) of the teacher's Average Annual Salary. If the teacher were to retire at age 55, the annual normal retirement benefit would be reduced 30% (6% per year for the 5 years early). Therefore, the teacher would receive an annual benefit of 42% ($60\% \times (100\% - 30\%)$) of the teacher's Average Annual Salary.

UNDER THE PROPOSED CHANGE

Now, because the teacher had completed 30 years of service at age 55, the normal retirement benefit would only be reduced 15% (3% per year for the 5 years early). And the teacher would receive 51% ($60\% \times (100\% - 15\%)$) of the teacher's Average Annual Salary.

ISSUE #3:
FINANCIAL AND DEMOGRAPHIC IMPACT OF PROPOSED CHANGES

The actuary for the Teachers' Retirement Board was asked to prepare financial impact statements for certain proposals. These statements showed the possible increase in the State Contribution to TRS as a percent of member payroll and an estimate of the first year dollar increase in the State Contribution to the plan. Because certain of these proposals were likely to produce changes in the overall member retirement patterns, the actuary modified the Board-approved retirement assumptions to make a better estimate of the possible effects of such changes.

Financial impact on State Contribution

Effective July 1, 1999

The actuary's estimate of the probable impact of the proposed revision from page 7 on the State's computed contribution is as follows:

	<u>Increase in Computed State Contributions as a % of Teacher Payroll</u>
Normal Cost	0.23%
Amortization of Unfunded Actuarial Accrued Liability	<u>0.49</u>
Total Increase	0.72%
Expected Teacher Payroll (1997-98 Fiscal Year)	\$2,294,000,000
Dollar Increase in State Contribution (1997-98 Fiscal Year)	<u>\$ 16,516,000</u>

The above result was based on a valuation as of June 30, 1996, using the actuarial assumptions adopted by the Board in 1996 with a modification to the early retirement assumptions to anticipate the greater utilization that would likely result if the change were adopted. The increase in the unfunded actuarial accrued liability was amortized as a level percent of payroll over a 30 year period.

It is important to keep in mind that the results of this supplemental valuation indicate what the July 30, 1996 valuation would have shown if the proposed changes had been in effect on that date. Supplemental valuations do *not* predict the result of future actuarial valuations. (Some future events can be predicted with considerable precision – but economic activities tend to be volatile because inflation seems to defy reliable prediction. As a result, future valuation results tend to be subject to a degree of unpredictability.) Rather, supplemental valuations give an indication of the probable effect of the *proposed changes only* on future valuations without comment on the complete end result of the future valuations.

The valuation was based upon the data submitted for the annual actuarial valuation as of June 30, 1996. A brief summary of the data is presented below.

Active Members as of June 30, 1996			
Number	Covered	Average in Years	
	Payroll	Age	Service
41,370	\$2,151,574,388	45.8	16.0

Potential impact on Towns

While this proposal would increase the State Contribution to TRS, the Task Force noted that the only members affected by the proposal would be those with greatest seniority within the System. Typically, those are among the most highly paid employees in a Town's education system. Thus, when a senior teacher retires, if he/she is replaced, it is by a less highly paid teacher. This phenomenon tends to reduce financial stress on the Town.

What about the demographic impact of a change?

As of June 30, 1996, nearly 40% of the members of TRS had already completed at least 20 years of service, while more than 60% of the membership was at least 45 years old. With the passage of time, more and more Connecticut teachers will reach retirement age, resulting in the need for qualified replacements. In its pursuit of high quality candidates

to teach the future generations of schoolchildren, the State must compete, not only with other states, but with the private sector, where retirement provisions are even less "onerous." It is a fact of economic life that job candidates *do* see the retirement program that a prospective employer offers as an important element in deciding where to work.

Finally, what about the impact on TRS members?

There is ample evidence from the past 10-12 years that benefit changes affect members' behavior, sometimes dramatically. For example, the potential increases in pay levels that resulted from the Education Enhancement Act encouraged a number of teachers to delay retirement, by up to three years in some cases. More recently, the introduction of the Excess Earnings Account to replace the automatic post-retirement adjustments (COLAs) for those who retired after August 31, 1992 produced an unprecedented number of retirements between June and September of that year.

The proposed change should not have the same dramatic impact as either of the above items. However, it would not be unusual to see a temporary "bubble;" that is, more retirements for the first year or two following the effective date of the change, followed by a more stable retirement pattern as people become more accustomed to the revision.